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Nebraska Economic Projections for 1990

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A Summary of 1990 Economic Projections

* Nebraska's Gross State Product will grow 1.2 percent in real terms (1982 dollars) to $25.3 billion. That growth contrasts with an increase of 1.7 percent in the nation's real GNP.
* The state's nonfarm wage and salary jobs will increase to an annual average of 721,700, a gain of 1.5 percent. That increase closely parallels a growth in U.S. establishment jobs of 1.6 percent in 1990.
* Nebraska's 1990 unemployment rate of 3.5 percent will continue to be well below the national unemployment rate of 5.6 percent.
* The state's total personal income in current dollars will increase 5.3 percent to $26.3 billion. The nation's personal income will increase 6.3 percent.
* Nebraska's net taxable retail sales will grow 6.4 percent to $12.7 billion. U.S. current dollar consumption will grow at a similar rate.

Overview

The Nebraska economy has just finished the decade of the 1980s at activity levels that could prompt any number of descriptions, depending upon one's vantage point or predisposition. A mixed set of signals emerges when the major performance measures of the state's economy are evaluated. For the observer prone to the use of cliches, the standard statement that the current situation is one of "great uncertainty" probably would suffice. This article attempts to provide a bit more substance in the assessment of where the Nebraska economy stands and where it appears to be headed.

Signals that generate continued optimism for the state's economy are easy to find. Job counts have risen substantially in the past few years. The monthly unemployment rate slipped below 3.0 percent on several occasions during 1989. Inflation rates are moderate. Nonfarm income growth has been steady. Several industries have enjoyed extremely high rates of growth. Few would quarrel with the assessment that the state's economy has come a long way from the dark days of the early 1980s and that there currently is a good deal of forward momentum.

Yet signals of caution and harbingers of moderating growth are also present. Farm income is beginning to falter. With continued decreases in target prices and uncertain climatic conditions, the prospects for a quick recovery appear dim. Monthly retail sales growth measured with respect to year earlier levels is tapering. Job creation has proceeded at a vigorous pace, but the number of employed Nebraskans has not grown commensurately. Nor has the labor force count shown a strong growth reaction to the expansion in employment opportunities. The national economy shows signs of cooling, a direction that will be transmitted to the state's economy.

Several broad categories of economic indicators for Nebraska will be treated in this article. The categories include Gross State Product, the labor market, personal income, and net taxable retail sales. A brief summary of the last several years of activity will be offered for each category, and projections for 1990 will be given. The overall tone of the 1990 projections calls for a year of continued growth in the economy, but at a lower rate than has been achieved in the past two years. Some areas of the state's economy will slip significantly from their recent growth paths, while others will remain on a steadier course.

Table 1
Gross State Product by Industry in Nebraska
($ Millions, 1982 Dollars)

Industry	1986	1987*	1988*	1989*	1990	% Change 1989-1990	Average Annual % Change 1986-1989
Farm	3,538	3,447	3,285	3,068	2,998	-2.3	-4.6
Agricultural Services	125	146	151	148	142	-4.1	6.1
Mining	79	77	76	75	74	-1.3	-1.7
Construction	814	807	830	851	862	1.3	1.5
Durables Manufacturing	2,040	2,136	2,301	2,402	2,478	3.2	5.6
Nondurables Manufacturing	1,593	1,635	1,699	1,791	1,825	1.9	4.0
Transportation, Communication, Utilities	2,576	2,615	2,684	2,757	2,799	1.5	2.3
Wholesale Trade	1,795	1,872	1,994	2,033	2,075	2.1	4.3
Retail Trade	2,098	2,101	2,151	2,155	2,170	0.7	0.9
Finance, Insurance, Real Estate	3,633	3,697	3,757	3,877	3,935	1.5	2.2
Services	2,899	2,992	3,163	3,238	3,304	2.0	3.8
Federal Government	501	510	518	530	542	2.3	1.9
State and Local Government	1,981	1,984	2,014	2,035	2,046	0.5	0.9
Nebraska Nonfarm GSP**	20,135	20,572	21,338	21,891	22,253	1.7	2.8
Nebraska Total GSP	23,673	24,019	24,623	24,959	25,251	1.2	1.8
U.S. Total GNP ($ billions)	3,718	3,854	4,024	4,142	4,225	1.7	3.3

*Figures for 1987-1989 are estimates made in advance of official releases
**Totals may not add due to rounding
Historical source: Bureau of Economic Analysis: April 1988 release of Gross State Product

Gross State Product

The state analog of the nation's Gross National Product (GNP) is Gross State Product (GSP), the market value of goods and services produced by a state's labor and property resources within a year. GSP is the broadest measure available for tracking a state's economic progress, and it is available on an industry breakdown. GSP estimates are expressed in constant dollars; real growth in industries and the full economy can be assessed without interference from the influence of price changes.

Table 1 contains GSP figures for the major industry classifications and state totals over the 1986-1990 span. Total GSP has grown at an average annual rate of 1.8 percent over the 1986-1989 period, with the largest annual growth of the period occurring in 1988 when the rate was 2.5 percent. Figure 1 portrays the growth rates. The average rate of 1.8 percent over 1986-1989 was respectable, but falls short of the 3.3 percent average annual growth posted by U.S. GNP over the same period.

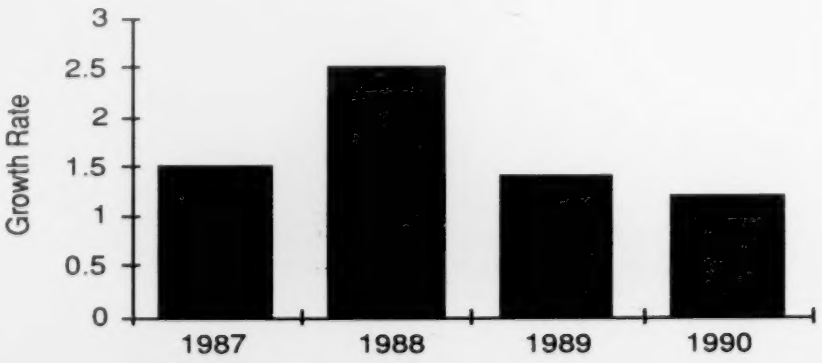
Nebraska consistently has lagged the U.S. in real growth, and the pattern is likely to continue in the near future. If one considers only nonfarm GSP in Figure 2, Nebraska's recent growth rates compare more favorably with those of the nation's GNP. Nonfarm GSP has averaged an annual growth rate of 2.8 percent over the 1986-1989 period, a performance that compares favorably with the 3.3 percent rate for the nation's GNP. The higher growth rate of nonfarm GSP over the period versus that of total GSP is the result of a slowdown in real activity levels in the farm sector.

Nebraska's total GSP will continue to grow in 1990, but at a lower rate than has occurred in any of the past four years. The projected 1990 growth rate of 1.2 percent is only slightly below that estimated for 1989, but is well below the rate posted in the peak growth year of 1988. The nation's growth rate in GNP is expected to ease to around 1.7 percent for 1990. The effects of moderating growth rates will be transmitted to the state economy.

Nebraska's farm GSP is expected to drop 2.3 percent in 1990, consistent with the sluggish farm income performance that is anticipated. In contrast, nonfarm GSP should advance in 1990 at a 1.7 percent rate, a pace of growth equivalent to that of the nation's economy. There is definitely some momentum in the nonfarm portion of Nebraska's economy that will continue into 1990.

Turning to the state's nonfarm industries, durable manufacturing has led the way in growth of gross product during the 1986-1989 period with an average annual

Figure 1
Total Gross State Product
(1982 Dollars)



rate of 5.6 percent. Growth in the industry slowed a bit in 1989, falling to 4.4 percent from the 1988 peak. The rate still represented an outstanding performance. Job creation and increased investment will continue to move the industry forward during 1990, but not at the pace of the past three years.

Durables gross product is projected to grow 3.2 percent in 1990. This figure is the highest among the rates anticipated for the broad industry classifications shown in Table 1. The nondurables portion of the manufacturing industry also has had a strong performance during the 1986-1989 period, surpassing durables in the annual growth rate for 1989. Growth is expected to slow in the nondurables sector during 1990 to a rate of increase of 1.9 percent.

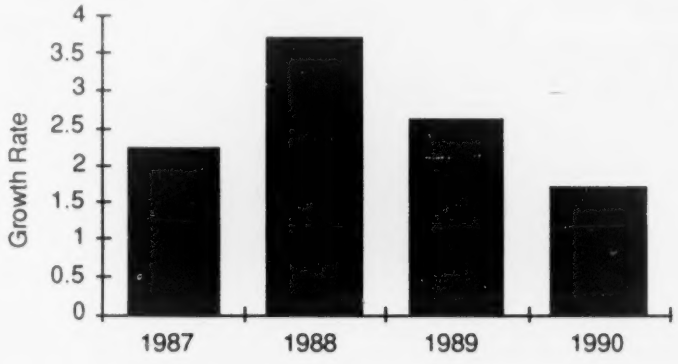
Both the durables and nondurables sectors of manufacturing in Nebraska are responsive to movements in their national counterparts—the moderation of growth in the national economy will prompt similar reactions at the state level. The higher growth rate of durables versus nondurables expected for 1990 is a reflection of the same pattern anticipated in the two national sectors.

Wholesale trade has been another strong industry for Nebraska over the past several years, averaging an annual growth rate of 4.3 percent in gross product over the 1986-1989 period. Only durables manufacturing outpaced wholesale trade during that time span. The industry quickly is establishing itself as a growth leader in the state economy and will continue to advance in 1990 at a projected rate of 2.1 percent.

Services also has emerged as a pivotal industry in Nebraska's growth patterns. Gross product in services grew 3.8 percent on the average annual basis during 1986-1989, due in large part to substantial job gains that have occurred in the industry. More moderate growth at a rate of 2.0 percent is projected for the services sector in 1990.

Industries in the private nonfarm group, other than those noted above, are projected to have 1990 growth rates of gross product under the 1.7 percent rate expected for the nonfarm group as a whole. Within this set, transportation, communication, and utilities (TCU) and finance, insurance, and real estate (FIRE) lead the way with projected rates of 1.5 percent. In both cases, the projected rate is lower than either the annual average attained over the 1986-1989 period or the rate for 1988.

Figure 2
Nonfarm Gross State Product
(1982 Dollars)



The construction industry is projected to trail TCU and FIRE in growth by a slight margin at a rate of 1.3 percent. Construction has been on a fairly steady course of recovery during the past two years, and 1990 should hold more progress for the industry, but at a slower pace. Gross product in retail trade will grow at a slow pace of 0.7 percent during 1990, reflecting continued sluggishness in wage and profit growth of the industry.

Finally, three industries are projected to register declines in gross product during 1990: farming, agricultural services, and mining. Mining has a small gross product, yet remains an important industry in some parts of the state. Mining gross product has been languishing in the mid-$70 millions, with no dramatic departures from that general level anticipated.

Labor Market

The labor market in 1989 resembled an economic version of Jekyll and Hyde; one barometer of the market was caught in a frenzy of activity, while the other barometer behaved in a rather subdued fashion. The first barometer is the number of jobs, while the second barometer is the number of employed or unemployed Nebraskans.

Mistakenly mixing the two can lead to great confusion; their distinction is useful to keep in mind when evaluating the performance of the labor market. Jobs are recorded on the basis of place of work, while the number of employed and unemployed Nebraskans are recorded by place of residence. Job counts are not counts of employed Nebraskans. One employed Nebraskan could hold multiple jobs or could be employed exclusively outside the state. Conversely, out-of-state residents can hold Nebraska jobs, but they would not be counted among Nebraska's employed. Further, job counts refer only to wage and salary jobs, thereby excluding proprietors. Proprietors, however, are included in the count of employed Nebraskans.

Nebraska's overall job count rose dramatically in 1989. Although the entire year's data are not available at the time of this writing, the estimate given in the labor market figures of Table 2 shows the nonfarm wage and salary job total for 1989 to be 711,193, on an annual average basis. The figure includes full- and part-time jobs and represents a dramatic increase of slightly more than 23,000 jobs within one year, a percentage gain of 3.3 percent. Job additions from LB775 agreements, the relatively strong growth in the state's nonfarm industries, and modest wage rate pressures in light of favorable inflation reports all contributed to the surge. For the 1986-1989 period as a whole, the total job count has risen almost 60,000 for an annual average growth rate of 2.9 percent. Figure 3 portrays the annual growth rates that were achieved during this period.

Job growth will continue to occur in Nebraska during 1990, but not at the rapid pace set in 1988 and 1989. The projected

Table 2
Job and Employment in Nebraska
(Annual Averages)

	1986	1987	1988	1989*	1990	% Change 1989-1990	Average Annual % Change 1986-1989
By Place of Work (Count of Jobs)							
Mining	1,723	1,721	1,582	1,665	1,665	0.0	-1.0
Construction	24,598	24,526	24,535	26,296	27,017	2.7	2.3
Durables Manufacturing	41,314	43,318	46,477	47,697	48,314	1.3	4.9
Nondurables Manufacturing	44,612	45,296	48,278	50,776	52,095	2.6	4.4
Transportation, Communication, Utilities	42,669	42,993	44,986	47,665	48,325	1.4	3.8
Wholesale Trade	46,818	47,806	50,021	52,533	54,581	3.9	3.9
Retail Trade	122,240	125,212	127,499	130,822	131,192	0.3	2.3
Finance, Insurance, Real Estate	46,828	48,006	47,933	49,092	50,105	2.1	1.6
Services	146,715	152,943	158,535	165,577	169,244	2.2	4.1
Federal Government-Civilian	17,572	18,134	17,949	18,083	18,124	0.2	1.0
State & Local Government	117,311	117,162	120,353	120,987	121,078	0.1	1.0
Total Nonfarm Wage & Salary	652,399	667,117	688,146	711,193	721,739	1.5	2.9
By Place of Residence (Count of Persons)							
Labor Force	813,000	812,001	817,000	817,200	821,586	0.5	0.2
Unemployment	41,000	40,000	29,000	25,330	28,689	13.3	-14.2
Unemployment Rate	5.0	4.9	3.6	3.1	3.5		
Employment	772,000	772,001	788,000	791,870	792,897	0.1	0.9

*Figures for 1989 are estimates made in advance of official releases
Historical source: Nebraska Department of Labor

growth rate for 1990 is a more moderate 1.5 percent, resulting in an expected increase of around 10,500 jobs for the year. This addition will take the overall job count close to the 722,000 mark. The general slowing of growth in the national and state economies makes continuation of the recent job growth rates an unlikely prospect. Yet adding 10,500 jobs in the coming year will be a good showing when compared to historical episodes of slowing growth in the state economy.

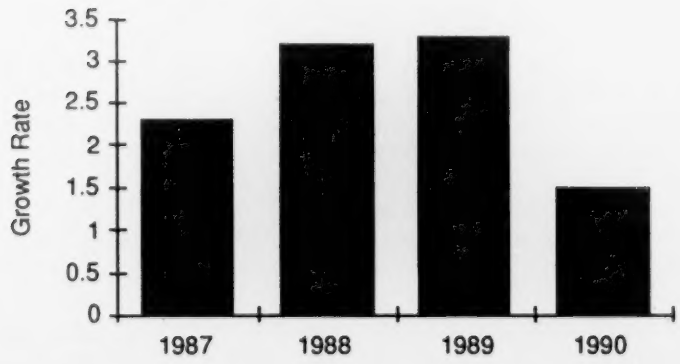
Among the nonfarm industries, durables and nondurables manufacturing have been the leaders in job growth on a percentage basis during the 1986-1989 period. Durables achieved an average annual growth rate of 4.9 percent, while nondurables was not far behind with a rate of 4.4 percent. When one recalls the severe declines in manufacturing employment in the early 1980s, the recent record of job growth in the two sectors is astonishing. Both sectors will continue to add jobs in 1990, but at slower paces than in 1989. The expected rates of growth are 1.3 percent and 2.6 percent for durables and nondurables, respectively.

The services industry has been right behind manufacturing in terms of recent job growth, posting an average annual growth rate of 4.1 percent over the 1986-1989 span. Close to 19,000 of the roughly 60,000 jobs added in the entire state economy over that span have come in services. Job growth in services is projected to slow a bit in 1990 to 2.2 percent, but the rate still implies a gain of about 3,700 jobs. With the projected increase in jobs for the entire state close to 10,500, the proportion of job gains in the state attributable to the services industry will remain in the neighborhood of one-third.

TCU and wholesale trade were slightly below 4.0 percent in their average annual growth rates in jobs during 1986-1989. The estimated growth rate of 6.0 percent for jobs in TCU during 1989 is surpassed only by the 7.2 percent rate in construction. Wholesale trade should show a 5.0 percent gain when the final 1989 figures are released. Both of these industries have recovered nicely, in terms of job counts, from their doldrums of the early 1980s.

Wholesale trade is projected to lead all industries in terms of job growth rates for 1990. The growth rate for jobs in TCU during 1990 is expected to fall into the middle of the industry pack. Construction is coming off a banner year of job growth where almost 1,800 jobs were added. The industry would be hard pressed to maintain such a rapid pace. Jobs will continue

Figure 3
Nonfarm Wage and Salary Jobs



to be added in 1990, but the growth rate will slip to 2.7 percent for the year. This rate is second highest among the industries of Table 2.

The second barometer of the state's labor market to be considered here is the number of employed and unemployed Nebraskans, the sum being the state's labor force. These counts appear in Table 2. Growth in the number of employed Nebraskans has proceeded at a 0.9 percent average annual rate over the 1986-1989 period, resulting in an increase of about 20,000 additional Nebraskans finding employment. Figure 4 shows the annual growth rates for the period.

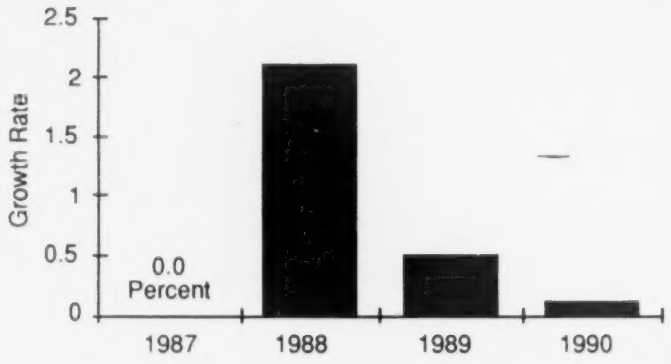
Although a growth total of 20,000 Nebraskans is significant, it must be evaluated in light of the substantial increase of 60,000 jobs over the same time period. Clearly, growth in the number of employed Nebraskans is falling far short of the growth in jobs. The growth gap between jobs and persons was especially glaring in 1989. Approximately 23,000 jobs were added, but only about 4,000 more Nebraskans were employed than in 1988.

With the labor force (employed plus unemployed) remaining almost constant between 1988 and 1989, the number of unemployed Nebraskans fell. The unemployment rate fell below 3.0 percent for some months of 1989 and to 3.1 percent on the annual average basis. An unemployment rate at this low level is a clear signal of a tight labor market. The labor force has grown only a little over 4,000 persons since 1986.

A new supply of potential employees has not appeared in response to the job growth that has occurred of late. Renewed population and labor force growth may occur with a lag as potential participants sort the signals provided by vigorous job growth. If Nebraska's population fails to respond with renewed growth, however, the labor pool necessary eventually to validate the job gains will not be forthcoming. In the event of this latter scenario, continuing the job gains on the order seen over the past few years will become increasingly difficult.

It is hoped that labor force growth will resume in an orderly fashion. Failing that, substantial job gains in the future will rely even more upon multiple job-holding (moonlighting), the holding of Nebraska jobs by nonresidents, and the conversion of proprietors into wage and salary workers. Only minor growth in the labor force, on the order of about 4,400 Nebraskans, is expected for 1990. The number of employed Nebraskans is projected to rise around 1,000. A small increase in the unemployment rate to the 3.5 percent level will occur. This slight upturn in the unemployment rate is consistent with an economy that is entering a period of slower growth.

Figure 4
Employed Nebraskans



Personal Income

Some surprises were provided by the Bureau of Economic Analysis last September when the revised income accounts for Nebraska through 1988 were released. A major downward revision of farm income levels for the past few years was made by the federal agency. The prevailing figure prior to the revision had shown Nebraska's 1987 farm income to have been close to $1.9 billion, while the 1988 income figure apparently had surged to a record high of around $2.1 billion.

According to the revisions, these growth patterns were incorrect—the revised pattern was just the opposite. Nebraska's farm income peaked in 1986 at $1.968 billion, fell almost imperceptibly in 1987, and then fell 13.0 percent in 1988 to $1.819 billion. Table 3 contains the updated current dollar figures on all the income categories and components. With the farm income revisions and developing weakness in the farm sector during 1989, Nebraska's total personal income grew only at a 4.9 percent average annual rate over the 1986-1989 period.

Nonfarm income growth was able to dilute the farm income drops somewhat, posting a 6.0 percent growth rate on the average annual basis during the same period. Figures 5 and 6 portray the annual growth rates of total and nonfarm personal income, respectively. Nonfarm income posted a respectable growth rate of 6.5 percent for 1988 and is expected to have grown 6.9 percent in 1989 when the final figures become available. Wages and salaries, as well as other labor income, have achieved strong growth during the past two years due to the substantial gains in job counts.

Unfortunately, a tempering influence upon the vigor of the nonfarm economy is beginning to be felt. The farm income estimates for the past two years show significant declines. A drop of 13.0 percent from the 1988 figure is anticipated when the final figure for 1989 is released later this year. Several factors have contributed to the decline, including lower target prices for federal program commodities and lower 1989 crop harvest totals in some areas.

Growth in Nebraska's nonfarm income during 1990 should taper about one percentage point from the 1989 growth rate to 6.0 percent. The 6.0 percent mark would put the year on par with the average growth rate achieved over the 1986-1989

Table 3
Income in Nebraska
($ Millions, Current Dollars)

	1986	1987	1988	1989*	1990	% Change 1989-1990	Average Annual % Change 1986-1989
Total Personal Income	21,589	22,475	23,670	24,948	26,272	5.3	4.9
Nonfarm Personal Income	19,620	20,518	21,851	23,366	24,769	6.0	6.0
Farm Personal Income	1,969	1,957	1,819	1,582	1,503	-5.0	-6.9
Components of Total Personal Income							
Earnings	16,016	16,781	17,632	18,578	19,512	5.0	5.1
Wages and Salaries	11,490	12,085	12,884	13,867	14,778	6.6	6.5
Other Labor Income	1,019	1,078	1,159	1,266	1,365	7.8	7.5
Proprietors' Income	3,507	3,618	3,589	3,444	3,369	-2.2	-0.6
Less: Social Insurance Contribution	997	1,057	1,188	1,271	1,353	6.5	8.5
Plus: Residence Adjustment	-297	-336	-354	-376	-398	5.9	8.3
Plus: Dividends, Interest, Rent	3,905	4,005	4,326	4,584	4,902	6.9	5.5
Plus: Transfer Payments	2,961	3,081	3,254	3,433	3,608	5.1	5.1
U.S. Personal Income ($ billions)	3,526	3,778	4,065	4,422	4,716	6.6	7.8

*Figures for 1989 are estimates made in advance of official releases
Historical source: Bureau of Economic Analysis: August 1989 release of state personal income

period. This is not a projection of impending doom, but a projection of growth moderation. Two broad categories of influence will be at work. First, the slowing of the national economy's growth will be transmitted throughout the industries of Nebraska. Note in Table 3 the anticipated softening in the growth rate of U.S. personal income for 1990.

Second, the income declines in the farm sector will translate into a drag upon continued growth in the nonfarm economy, particularly in those locales and industries tied closely to farm activity. Farm income is expected to continue to decline in 1990, but at a more moderate rate than in 1989. The weighted combination of the farm and nonfarm income figures results in an expected growth rate of 5.3 percent for total personal income in 1990, representing only a slight drop from the 5.4 percent rate expected for 1989.

The compositions of these similar rates differ, however. For 1989, nonfarm income is expected to have finished with a stronger growth performance than will be the case for 1990. Conversely, the farm income decline expected for 1990 is less than that for 1989. As usual, the farm sector holds the trump card. If farm income falters in 1990 to a greater degree than in the projection, the total income projection will be too optimistic. The nonfarm income projection also will fall short due to the transmission of effects from the farm sector.

Figure 5
Total Personal Income

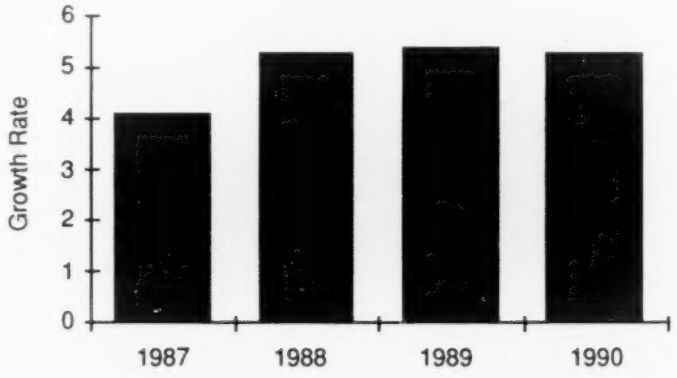


Figure 6
Nonfarm Personal Income

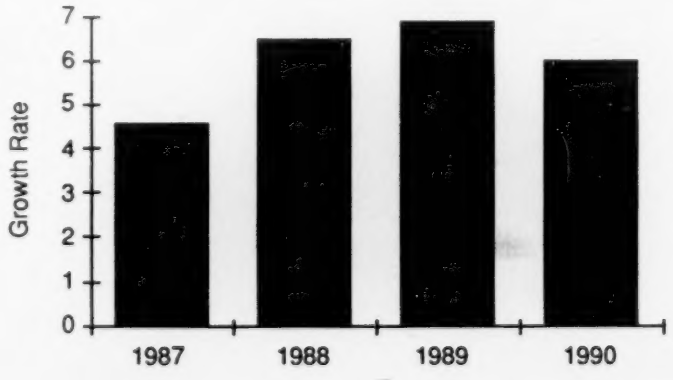


Table 4
Net Taxable Retail Sales in Nebraska
($ Billions, Current Dollars)

Category	1986	1987	1988	1989*	1990	% Change '89-'90	Average Annual % Change '86-'89
Motor Vehicle	1.246	1.191	1.414	1.529	1.622	6.1	7.5
Nonvehicle	8.555	8.852	9.716	10.406	11.080	6.5	6.8
Total	9.801	10.043	11.130	11.935	12.702	6.4	6.8

*Figures for 1989 are estimates made in advance of official releases
Historical source: Nebraska Department of Revenue

Retail Sales

Net taxable retail sales in Nebraska continued to grow at a reasonably good pace during 1989. Final figures for sales in 1989 are not yet available. Table 4 contains the relevant data on sales. Growth in 1989 is expected to have moderated from 1988, particularly in the motor vehicle sales category. Those sales skyrocketed 18.7 percent in 1988 over 1987 sales, an unusual performance that could not be sustained into 1989.

The exceptionally strong growth pattern did manage to continue into the early months of 1989, but has abated except for a bit of a flourish at the end of the model year. A growth rate of 8.2 percent for motor vehicle sales in 1989 is expected in the final tabulations. In 1990, a moderation in the growth rate of motor vehicle sales to 6.1 percent for the year is projected.

Early reports of consumer reactions to the 1990 model year and accompanying price hikes do not paint a rosy picture. Quick moves by the auto industry toward price concessions in early 1990 (incentives, rebates, etc.) may make the projection overly pessimistic.

Nonvehicle sales have grown at a slower pace than motor vehicle sales over the past two years, but the rates of 9.8 percent and 7.1 percent in 1988 and 1989, respectively, are symptomatic of the Nebraska economy's strength through the period. In 1990 continued cooling of the growth rate is expected for nonvehicle sales, with the year's eventual figure 6.5 percent higher than the figure for 1989.

Such moderation in growth does not translate into a signal of desperation for the sales picture. The 6.5 percent rate admits positive real growth for the year after discounting the effects of the anticipated inflation rate. The pattern expected for the total of motor vehicle and nonvehicle sales follows that of the latter closely, as the nonvehicle sales category is the dominant component.

Review and Outlook of the National Economy

John S. Austin, UNL Bureau of Business Research

The outlook for 1990 calls for a soft landing. Inflation and economic growth are expected to slow from 1989 levels. The official definition of a recession calls for at least two quarters of negative growth in GNP. Although no recession is foreseen at this time, growth rates in late 1989 and early 1990 are so small that it would take little to tip one of those quarters into the negative column. Nevertheless, a broad systemic weakness in the economy is not apparent; a short-term pause in growth rates is most likely.

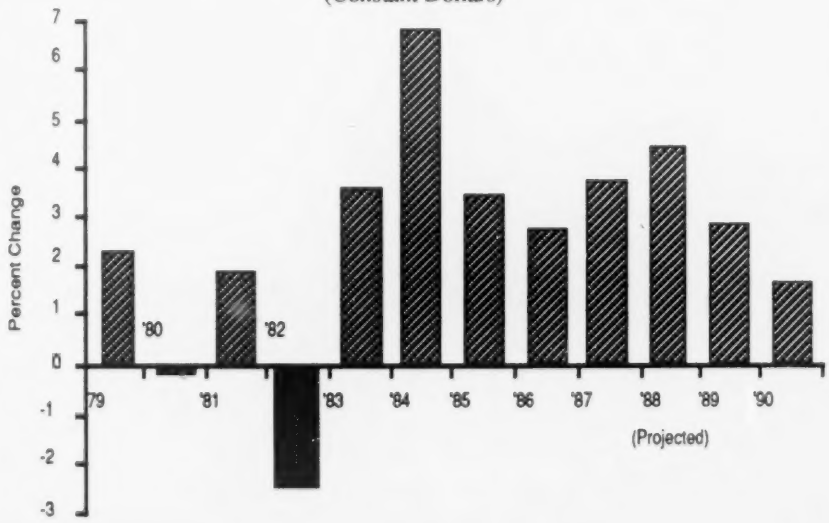
The Decade of the 1980s

The early years of the 1980s were characterized by high inflation and high interest rates. Who can forget 17 percent mortgage rates of 1981? In 1980 GNP turned down for only a single quarter, but the downturn of second quarter real GNP was a huge 9.2 percent at annual rates. In August 1981, the worst post-World War II recession began. Recovery didn't start until December 1982. (See Figure 1.)

From such a poor beginning was there anywhere to go but up? Real GNP grew 30 percent from 1979 until 1989. The growth from November 1982 has been uninterrupted by a downturn. There were several economists who thought that 1986 would be a recession year. When 1986 passed without a downturn, the gloom and doomers jumped on a treadmill, postponing the start date of their imminent recession. Their behavior is reminiscent of the boy crying wolf. Just as in the fairy tale, we citizens need to remain wary that the wolf of recession still may be lurking somewhere, ready to strike if we let down our defenses.

Why was there such prolonged continuous growth in the 1980s? There are

Figure 1
Gross National Product
(Constant Dollars)



two answers to that question. One is that we started from an extreme low at the end of the 1981-82 recession and had ample room to grow without capacity limitations. Second, the continuous expansion owes itself to modest increases throughout the seven year expansion. With the exception of 1984, when GNP grew 6.8 percent, growth rates stayed below 5 percent. As a result of moderate expansion and ample capacity, inflation remained low. At the start of the decade, the 1980 Consumer Price Index expanded 13.5 percent. In 1989, the Consumer Price Index expanded approximately 5.0 percent.

1989 In Retrospect

1989 fooled many economists. When benchmark forecasts were made at the end of 1988, virtually all of us knew that the first quarter of 1989 would be one of rapid growth. That growth was largely due to the drought impact from 1988. The rebound from the drought added 2.5 percent to the growth rates in the first quarter, leading to a total gain of 3.7 percent. The disagreement among economic forecasters was what would happen after the first quarter. Many called for a downturn in the second, third, or fourth quarter. More optimistic forecasters believed that the recession wouldn't start until 1990, while still others insisted that there would be no recession. The holdouts have been correct to date. The second and third quarters of 1989 showed respectable growth rates of 2.5 percent to 3.0 percent, respectively. Data from the fourth quarter indicate some weakness. Given the weak auto sector and poor October trade figures, it is conceivable that the fourth quarter will show negative growth. At this writing, however, it looks likely that growth should be about 1 percent at annual rates.

Energy prices ran up in mid 1989 and quickly ran down again. OPEC recently agreed to expand their output, implying a further easing of future prices. We can be somewhat optimistic about moderate inflation in the near term. This allows the Fed to continue its gradualism approach. There have been two notable exceptions to that Fed policy: October 1987 and October 1989. Both exceptions followed major stock market collapses. The Fed's response was to expand money and credit rapidly to signal the financial community that it was willing to expand the economy and neutralize the economic impact from the stock market collapses. Other than those two unique times, the Greenspan Fed has eased rates upward or downward a quarter of a percent at a time. Such gradualism is favored by the business community because it allows banks and businesses to plan their future more accurately.

The Outlook for 1990

What are the prospects for 1990? The consensus view calls for a slow expansion of less than 2 percent in real GNP. Inflation rates should stay the same or decrease slightly from 1989. Continued investments last year allowed capacity utilization rates to fall. That easing in capacity utilization rates eases pressure on industrial prices. Barring unforeseen external pressures, the outlook for inflation is for a moderate reduction in prices for consumer products from the 5 percent area in 1989 to about 4 percent in 1990. A forecast of 1990 quarterly GNP growth rates is presented in Figure 2. The forecast is an ad hoc blend of forecasts from the WEFA Group, the Blue Chip Survey and Data Resources, Inc. and loosely represents a center-of-the-pack view. The equivalent annual growth rate is about 1.7 percent. The basic pattern calls for steady increases in growth once the malaise of the fourth quarter 1989 has passed.

The slow increase in overall activity in 1990 can be broken into major components. Forecasts of key economic variables are contained in Table 1. We expect that the consumption of nondurables and the consumption of services will continue their steady increase. Although it is hard to forecast the growth rates of either one of these components accurately, in recent years the consumption of nondurables tended to be strong when the consumption of services was slow and visa versa. The two components had rates of gain that averaged approximately 3 percent over the last several years.

The more interesting consumer story is the durables sector. A major component of this sector is automobile sales. We have recounted a number of times the pattern of third quarter 1989 auto sales as producers tried to clear their inventories. Dealer incentives worked. Consumers bought automobiles in large numbers. The forecast for dismal durable numbers in the next several quarters is due to the extreme increase in durable consumption for the third quarter 1989. In that quarter, durable consumption increased 11.3 percent at annual rates. The one sure forecast is that when the numbers for fourth quarter 1989 GNP are released on January 26, the consumption of durables will be down substantially from third quarter numbers. The 1990 forecast for durable consumption shows moderate quarter-to-quarter gains. Despite those increases, the consumption of durables is not expected to match the peak third quarter 1989 figure at any time during 1990.

The total of auto and light truck sales in 1990 will decrease slightly from 1989. (See Figure 3.) The consumption of durables not only includes auto sales, but also many items related to housing such as household appliances, carpets, and furni-

Figure 2
Real GNP, Quarterly Percent Changes
(Seasonally Adjusted at Annual Rates)

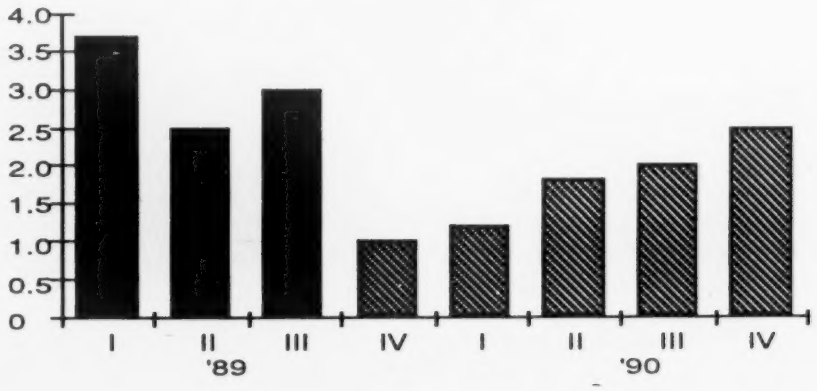


Table 1
National Economic Indicators

	1987	1988	1989	1990
Real GNP (% Change)	3.7	4.4	2.9	1.7
Real Consumption (% Change)	2.8	3.4	2.7	1.8
Auto & Light Truck Sales (Millions of Units)	15.0	15.5	14.9	14.5
Housing Starts (Millions of Units)	1.6	1.5	1.4	1.5
Real Nonresidential Investment (% Change)	3.9	8.4	3.4	2.2
Real Government Purchases (% Change)	2.6	0.4	2.9	1.5
Net Exports ($ Billions, 1982 Dollars)	-115.7	-74.9	-57.0	-55.0

ture. Because the outlook for housing starts calls for a moderate gain in 1990, we cannot expect a rapid rise in the consumer durables related to new housing sales.

The prospects for housing starts in 1990 may be one source of optimism. With mortgage rates in the 9.5 percent range, the demand for new houses may increase. We forecast a moderate increase in housing starts above the 1989 level. (See Figure 4.) Total housing starts are expected to be approximately 1.5 million units. All of that increase likely will be in the single family housing market. Multifamily housing has not recovered from the blow it received from the 1986 tax reform.

The other area where there may be some room for optimism is nonresidential investment. Within this category are two important items: structures and producers' durable equipment. Structures investment in 1989 likely will show an overall decrease from 1988 levels. Producers' durable equipment, however, increased in the first three quarters of 1989. At this writing, expectations are that producers' durable equipment will decrease in the fourth quarter of 1989. With reduced demands from a slowing economy, it is reasonable to expect that investment in either structures or equipment will moderate. There is less reason to build capacity in a slowing economy than in a rapidly expanding economy. There is no clear consensus on the rates of gain for either structures or equipment. Structure investment probably will end its decline and flatten. The prospects for a strong positive gain are slim. Producers' durable equipment has seen healthy growth rates in recent years, but likely will slow from that pace. We expect the increase in durable equipment to be 3 percent or less.

Within the government sector, the state and local component is the biggest item. It is characterized by steady growth. The federal government sector tends to be more erratic. There is considerable interest in the possible peace dividend from the liberalization of Eastern Europe, although this dividend may not be harvested in 1990. The peace dividend is a long-term issue. There is some question whether we have spending alternatives that can replace sizeable cuts in defense spending. We need not fear that we will have no worthwhile projects. One program would be rebuilding public facilities, both interstate highways and other roads and bridges. Others will push for increases in welfare spending or an escalation of the war on drugs. Still others would like to see a substantial reduction or elimination of the federal deficit. There is no shortage of ideas of how to spend the peace dividend.

The last major component of GNP is the most difficult to forecast—net ex-

Figure 3
Auto Sales

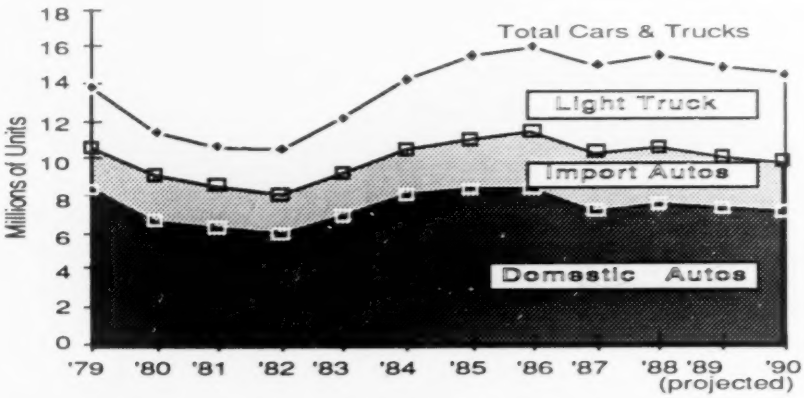
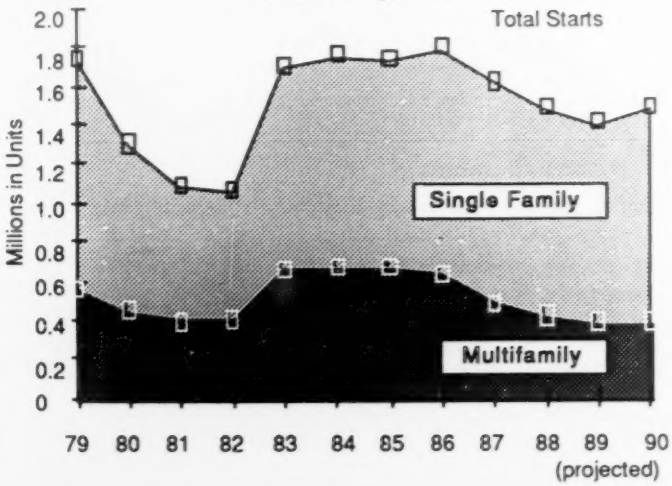


Figure 4
Private Housing Starts



ports. Net exports are the balance of exports and imports. The liberalization of Eastern Europe may affect the net export number. In the short term, there likely will be an increase in the demand for oils and meats as Eastern Europe restructures its diet. Shipping more food to Eastern Europe is a short- to intermediate-term prospect. In the long term, Eastern Europe can be self-sufficient in agriculture, perhaps even a competitor of the U.S. If the new governments of Eastern Europe are able to reorganize their agriculture, there could be a substantial demand for American agricultural equipment.

On the import side, Japan is a major actor. The major component of imports from Japan is automobiles. In the long term, an increased number of Japanese vehicles will be supplied from domestic Japanese plants. Initially, the U.S. Japanese plants are doing domestic final assembly of Japanese parts. In the long term, that may change to domestic assembly of domestically made parts for Japanese vehicles. The impact of the Japanese plants eventually may be similar to domestic auto plants today, except that profits may be exported to Japan rather than staying within the domestic economy. In the short term, I expect a small gain in imports of Japanese cars. Overall, the thirst for imports should slacken as the growth rate of personal income falls in 1990. Should the dollar continue its current decline, then I would expect the net export situation to improve marginally in 1990. The consensus forecast of the Blue Chip Indicators calls for a slight improvement in net exports. The forecasts within the consensus, however, have a range of $46 billion. WEFA Group shows a worsening, while Data Resources shows improvement. The spread shows the difficulty of forecasting this category.

About This Month's Review and Outlook . . .

Data for Tables I and II were not available at press time. Data for Table IV and Figure I are preliminary and may be revised.

Table III
Price Indices

	November 1989	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	125.9	4.7	4.8
Commodities	118.3	4.2	4.7
Services	134.1	4.9	4.9
Producer Price Index (1982 = 100)			
Finished Goods	114.8	4.6	5.2
Intermediate Materials	112.2	2.9	4.9
Crude Materials	102.3	8.8	7.3
Ag Prices Received (1977 = 100)			
Nebraska	155	2.0	6.7
Crops	127	-5.9	13.6
Livestock	173	6.1	3.6
United States	147	2.1	7.0
Crops	129	-5.1	8.1
Livestock	163	7.9	6.3

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics

Table IV
City Business Indicators
September 1989 Percent Change from Year Ago

	Employment (1)	Building Activity (2)
NEBRASKA	-0.6	14.5
Alliance	-0.2	-73.6
Beatrice	-1.1	12.7
Bellevue	-0.7	-23.3
Blair	-0.7	101.0
Broken Bow	-1.4	-83.0
Chadron	-3.7	163.3
Columbus	0.2	55.2
Fairbury	-0.7	-82.6
Falls City	-1.6	-3.6
Fremont	-1.1	68.5
Grand Island	-0.9	4.5
Hastings	-0.4	-58.3
Holdrege	-1.3	322.4
Kearney	-0.1	-12.6
Lexington	0.5	506.8
Lincoln	-0.1	51.0
McCook	-0.4	5.7
Nebraska City	-1.2	373.2
Norfolk	-0.7	76.0
North Platte	-0.4	5.6
Ogallala	-1.5	-22.6
Omaha	-0.7	-7.1
Scottsbluff/Gering	-1.9	5.1
Seward	-0.2	9.5
Sidney	0.3	-64.5
South Sioux City	-0.9	-14.5
York	-1.6	-27.1

(1) As a proxy for city employment, total employment (labor force basis) for the county in which a city is located is used

(2) Building activity is the value of building permits issued as a spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Cost Index is used to adjust construction activity for price changes

Sources: Nebraska Department of Labor and reports from private and public agencies

Figure I
City Business Index
September 1989 Percent Change from Year Ago

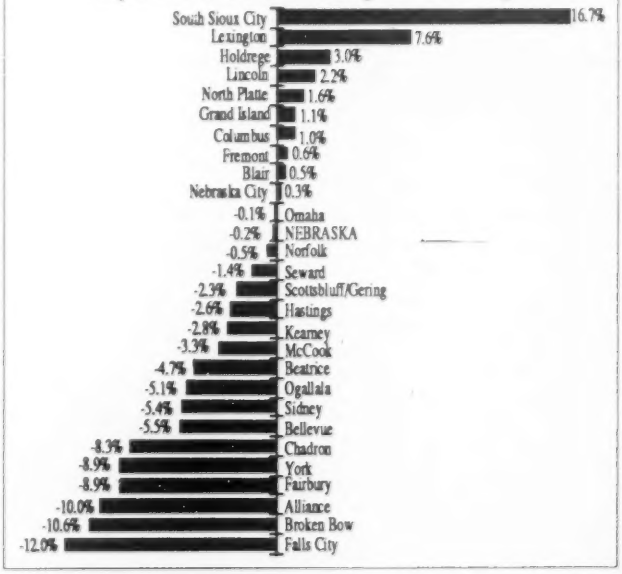
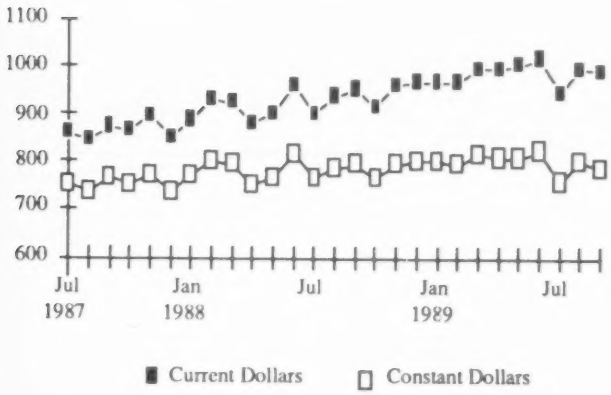


Table V
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number and City (1)	City Sales (2) September 1989 (000s)	City Sales (2) % Change vs. Year Ago	Region Sales (2) September 1989 (000s)	Region Sales (2) % Change vs. Year Ago	YTD % Change vs. Year Ago
NEBRASKA	$891,072	2.3	1,029,706	3.7	7.2
1 Omaha	305,053	5.1	383,012	5.8	9.0
Bellevue	12,620	-5.4	*	*	*
Blair	4,388	-2.1	*	*	*
2 Lincoln	121,173	4.3	141,441	5.4	4.6
3 South Sioux City	6,328	45.4	8,336	30.4	7.4
4 Nebraska City	3,441	-11.8	18,578	-1.3	1.6
6 Fremont	15,848	0.5	30,657	4.3	5.3
West Point	3,038	11.0	*	*	*
7 Falls City	1,837	-22.1	8,647	-8.7	-1.1
8 Seward	4,188	-0.2	15,210	1.2	2.2
9 York	6,006	-11.8	14,263	-11.3	6.8
10 Columbus	14,412	0.9	26,804	0.2	5.2
11 Norfolk	18,542	-2.9	34,061	-1.8	6.4
Wayne	2,753	-4.0	*	*	*
12 Grand Island	35,248	6.8	49,696	3.7	8.6
13 Hastings	15,796	8.0	25,790	7.6	7.7
14 Beatrice	7,078	-7.3	17,075	-0.5	0.5
Fairbury	2,696	3.4	*	*	*
15 Kearney	17,951	-1.2	26,856	1.2	9.0
16 Lexington	5,793	0.8	15,985	0.5	6.0
17 Holdrege	4,106	-3.9	8,182	3.1	6.2
18 North Platte	16,208	7.5	21,227	10.0	5.8
19 Ogallala	5,374	-3.7	11,400	2.0	11.5
20 McCook	7,278	-4.1	10,969	-2.7	3.2
21 Sidney	3,719	2.6	8,007	1.0	1.6
Kimball	1,620	-4.5	*	*	*
22 Scottsbluff/Gering	16,902	-0.2	24,615	1.0	9.2
23 Alliance	4,695	-4.4	13,173	-3.2	1.5
Chadron	2,191	-22.6	*	*	*
24 O'Neill	4,027	5.9	14,078	4.3	11.1
Valentine	2,467	4.6	*	*	*
25 Hartington	1,257	-13.5	7,963	-8.2	0.3
26 Broken Bow	3,219	0.6	11,938	-1.5	5.4

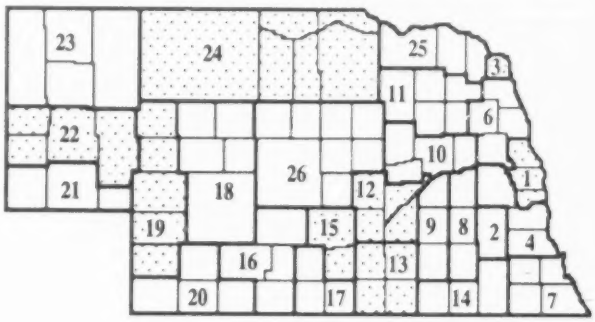
(1) See region map
(2) Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales
* Within an already designated region
Compiled from data provided by the Nebraska Department of Revenue

Figure II
Nebraska Net Taxable Retail Sales
(Seasonally Adjusted, $ Millions)



(1) The Consumer Price Index (1982-84 = 100) is used to deflate current dollars into constant dollars

Figure III
Region Sales Pattern
YTD as Percent Change from Year Ago



Shaded areas are those with sales gains above the state average. See Table V for corresponding regions and cities

Alternative Scenarios

We examine two scenarios to see if either can be rejected. The first is the recession forecast. With a forecast of low growth, it is hard to envision a recession. The usual scenario of overextension, followed by inflation, followed by a Federal Reserve overreaction is not at hand. The recession forecasters base their projections on the idea that the expansion will run out of gas. There will be no driving force behind the economy, and a collapse will ensue. This scenario has no theoretical basis and does not characterize modern U.S. recessions. Standard business cycle analysis tends to follow the line of an external shock of some kind followed by a bad policy reaction—usually on the part of the monetary authorities. Examples of an external shock could be rapid increases in oil prices; a sudden collapse of exports; or an external inflation in some primary materials critical to our economy. An example of an internal shock would be the automobile industry going into a prolonged tailspin. A possible scenario for the last example would be for domestic auto makers to go for high profit rates per vehicle and allow production rates to fall. Falling production rates would result in substantial decreases in employment and purchases of the auto sector. Examples of bad policy reactions almost always are attributed to the Fed. The Greenspan Fed has shown the ability to react well to crisis and to moderate its policies at other times. It also is conceivable that the government could react poorly. For example, in the depression of the 1930s the federal government originally reacted by cutting rather than expanding spending. If the situation arose where a major increase in federal spending was needed to offset a major downturn in consumer spending, I doubt that we would get it. Instead the federal government would focus on deficit reduction.

Hard evidence of a recession in the near future just isn't there. Main proponents of the imminent recession theory tend to use the running-out-of-gas scenario. There are some external shockers out there, but even the external shock advocates need inappropriate reaction from the Federal Reserve or the federal government to bring its downturn. To reject the possibility of recession, one must state that there is a zero chance of an unforeseen negative outside influence. Few of us are so muddled as to assign such a low probability to unforeseen events. I place the possibility of a recession into the 10 percent to 20 percent range.

What of the possibility that 1990 will be a boom year? One pressing need is in public facilities improvements. Any proposed expansion will encounter the problem of the Gramm-Rudman ceiling. There is a demand for improving public facilities, but it is uncertain that the government will be willing to spend the money. A 1990 boom year based on a rapid expansion of public investment is dubious.

What of a major expansion of the private sector? One possibility is a substantial improvement in the housing market, well beyond the small increase we envision. Less than double digit mortgage rates should encourage the home buyer. If incomes are stronger than we envision, there could be a substantial increase in housing starts. There is ample capacity to handle any increase in demand.

A boom in private nonresidential investments is unlikely. Although an easing of interest rates will stimulate investment, low rates of economic growth discourage plant expansion. Solid evidence of a turnaround in overall growth will be needed to stimulate overall investment.

Last, the likelihood that the auto sector will rebound in 1990 and lead us from the slow growth doldrums is small. Motor vehicle sales have been high for several years. The average age of the automobile on the road is relatively young.

The outlook for a boom in 1990 hangs on the thin reed of a major expansion in the residential housing area. The rebuilding of America's infrastructure is a much longer-term program, unlikely to accelerate in 1990. The volatile consumer durable sector is likely to remain below 1989 levels. Thus, a real boom is unlikely; therefore, the chance of runaway growth may be near zero. Let's assign a 10 percent probability to this scenario.

The low probability of the extremes gives the muddling through forecast further credibility. It is most likely that 1990 will be a year characterized by slow growth. We should view 1990 as a coach would a losing team—as a rebuilding year. The soft landing is at hand.

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